



Association of Taxation Technicians

Examination

May 2007

PAPER 7 – PART II

PRACTICE ADMINISTRATION & ETHICS

TIME ALLOWED – 3 HOURS
(for Part I and Part II)

- You are required to answer **all** questions in Part I (printed separately) and Part II.
- The maximum number of marks for each question in Part II is shown in brackets.
- For Part II, start each answer on a new sheet of paper.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- Marks are specifically allocated for good presentation.

1. You are an assistant working for a small accountancy practice. Jason Rees, the tax manager, has just had an initial meeting with a new corporate client and has provided you with a copy of the accounts and Corporation Tax computations as at 31 December 2005. Jason Rees tells you that the accounts to 31 December 2005 were prepared by the previous agents and have been submitted to HM Revenue & Customs with the Corporation Tax return. In addition, he provides you with the following information.

Bluebird Ltd began trading in January 2001, making components for the computer industry, and draws up its financial statements to 31 December each year. The company is owned equally by Mr and Mrs Jones. In the year to 31 December 2005, the company made profits of £150,000, after the payment of directors' salaries of £50,000 each to Mr and Mrs Jones. Also included in the 2005 accounts are total net dividends of £40,000, which were paid equally to Mr and Mrs Jones in March 2006.

Jason Rees has asked you to briefly review the 2005 accounts and let him have details of any items that need correction, as well as a note of any administrative matters that are required to be undertaken. Upon reviewing the accounts and tax computations, you note that the tax computation is incorrect, as the previous accountants have taken the profits assessable to Corporation Tax as being the retained profits after the payment of the dividends referred to above.

You are required to draft a memorandum to Jason Rees, covering the following matters:

- 1) **The date by which the company must make any amendments to its Corporation Tax return.** (1)
- 2) **Guidance as to how your practice should proceed if Mr and Mrs Jones give instructions that the Corporation Tax computations for the year ended 31 December 2005 should not be amended.** (2)
- 3) **Details of any procedures required either by law or recommended by the Association's Professional Rules and Practice Guidelines that should be undertaken when accepting instructions from new clients.** (11)

Total (14)

2. You have received the following email from Adam Richards, a local solicitor.

To: j.smith@connect.co.uk
From: a.richards@largefirm.co.uk
Subject: Question

Hi John

I have a wealthy client, Fred Jones, who has come to me with a strange problem. His wife Mabel died about two years ago after a short illness and Fred decided to sell their home, The Manor House, and move into something smaller. It is quite sad really, as they had purchased The Manor House as a retirement home some thirty years ago but had only moved into it about a year before Mabel's death, when Fred had retired and they had sold their main home in London.

HM Revenue & Customs raised an enquiry on the Capital Gains Tax computation of the sale of The Manor House, which had been calculated personally by Fred, and disclosed on his Income Tax return. As Fred was unsure how to deal with a formal Revenue enquiry, he engaged an accountant, who is a member of your Association, to help with the negotiations. After a few months, the enquiry was concluded and Fred had to pay an additional £150,000 in Capital Gains Tax!

Fred considered the matter concluded and had paid the accountant's final fee note. However, the accountant recently wrote to Fred with a further fee note for £3,000, saying he had just realised that he should have been charging an enhanced hourly rate, not the regular rate charged in the original fee note.

Fred disputed the further fee note, whereupon the accountant made a further proposal. He says that he is of the opinion that too much Capital Gains Tax has been paid on the disposal and has suggested that he will recover this tax for Fred if Fred agrees to pay the extra £3,000 plus 10% of any tax recovered. Fred has spoken to the accountant, who refuses to disclose how the extra tax can be recovered until Fred signs an agreement to the fees indicated above.

Can the accountant do this? Please let me have your views.

Regards

Adam

You are required to write a letter to Adam Richards with your views on the conduct of the accountant in this case. Your letter should cover the following areas:

- 1) The basis on which fees can be charged and what enquiries Adam Richards should make to enable him to satisfy himself regarding the fees in this case.**
 - 2) A member's professional obligations and duty of care to his clients.**
 - 3) Making a formal complaint.**
- (15)

3. Your firm has acted for Mrs Peterson for a number of years and has lodged a mandate form 64-8 with HM Revenue & Customs, enabling your firm to deal with her Income Tax affairs. She has been one of the directors of Creative Information Ltd for a few years and that company has paid for your firm to prepare her tax return and to provide her with personal tax advice. To date her tax affairs have been very simple with an outstanding liability each year of under £200. Creative Information Ltd is one of your firm's biggest clients and has increased dramatically in size and profitability over the past few years. Mrs Peterson came in for a meeting yesterday and, as the partner who normally deals with both the company and her was unavailable, you met with her instead.

Apparently she is considering leaving her employment with Creative Information Ltd, although she has not discussed this with the company. Her intention would be to operate as a self-employed consultant in a similar sector to her present employer and she is confident that she would be able to generate substantial profits from this venture. At this stage she does not anticipate becoming an employer. Some of her potential clients are based overseas in the emerging markets of eastern Europe. You are not aware whether you have other clients operating in that geographical area.

She has had no experience of operating her own business and has asked that you prepare for her a briefing note setting out her responsibilities and the time limits for lodging any forms, paying any liabilities, etc. She has emphasised that she will rely on this as a guide to help keep her compliant with HM Revenue & Customs. She recognises that she will require significant ongoing professional taxation advice and, as she has always been pleased with the service given to her, obviously she wishes to engage your firm for this work.

It is likely she will leave Creative Information Ltd in December 2007, with self-employment commencing from 1 January 2008.

A new engagement letter has already been issued to Mrs Peterson in connection with this advice and is fully compliant with current guidelines.

You are required to:

- 1) **Prepare a note for your colleague identifying any professional concerns that you may have regarding the provision of this advice to Mrs Peterson. You should not attempt to reach any conclusions on these concerns.** (2)
- 2) **Draft a briefing note for Mrs Peterson that:**
 - (a) **Sets out the relevant dates for payment of her first three Income Tax and National Insurance liabilities that include the liabilities on her new self-employment income. Your answer should explain the composition of these payments and the penalties that will be imposed for failure to meet the due dates.** (10)
 - (b) **Sets out the due date for submission of her tax return and the penalties that will be imposed for failure to meet the due date.** (3)
 - (c) **Advises her of any other administration requirements relating to taxation with which she and her business will be required to comply and the penalties for failing to do so. (Ignore VAT.)** (4)

Total (19)

4. Yesterday you met the finance director of one of your client companies, Stoneywell Ltd. He explained that the company has just appointed a new director of human resources, Jane Smith, who has some good ideas about rewarding staff. He asked that you meet with her to answer some of the administration questions she has regarding rewarding staff. Later that afternoon she telephoned and made an appointment to see you next week. The note of call reads as follows:

Note of telephone call on 8 May 2007.

Call made by Jane Smith, new human resources director of Stoneywell Ltd.

Jane introduced herself and confirmed that she was hoping to meet as soon as possible. She is considering changing the benefits packages enjoyed by some of their employees, but is not quite sure of the taxation administration arrangements that she may have to change.

Broadly the current position as she understands it is as follows:

- 1) The only benefit currently provided by Stoneywell Ltd is the provision of a company car to certain employees;
- 2) The company reports the benefit to HM Revenue & Customs, as required, and the employees are taxed accordingly;
- 3) The company also reimburses certain expenses, eg travelling, within HM Revenue & Customs guidelines, and these are also reported to HM Revenue & Customs.

In her previous job, the company had just introduced some benefits when the taxation charge associated with the benefits changed and this caused a significant amount of staff unrest. She is anxious, if possible, to avoid a recurrence of this.

What she wants to cover at the meeting is:

- 1) What reporting requirements Stoneywell Ltd currently has to HM Revenue & Customs in connection with these benefits and any National Insurance costs associated with this.
- 2) What is the normal route for introducing new taxation legislation?

You are required to prepare brief notes in advance of this meeting. These may be in a similar format to the note of telephone call above. You are NOT required to produce any calculations.

The notes should cover:

- 1) **The current annual reporting requirements associated with the benefits provided by Stoneywell Ltd, any associated National Insurance costs and relevant time limits.** (4)
- 2) **The normal timetable for enacting a Finance Act, starting with the pre-Budget report. Your answer should provide a brief explanation of each of the main stages in the timetable.** (8)

Total (12)